



DEPARTMENT OF STATE
ACTION MEMORANDUM
S/S

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XR-7513596

Notified and copied
D and AF.

PIES TO:

July 3, 1975

LPB

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To: The Secretary

LSE

Through: D - Mr. Ingersoll

From: AF - Nathaniel Davis

D
:WEB

US Assistance to ZaireThe Problem

Ambassador Vance is scheduled to return to Zaire around July 15 to resume the dialogue with President Mobutu aimed at improving our relations. Mobutu will expect Vance to indicate how the US is prepared to help with Zaire's severe financial problems. Restoration of Mobutu's confidence in our intentions toward him and Zaire will depend on what Vance has to say regarding a possible US aid package. We in turn must decide how we wish to relate our assistance to the need for Zaire to put its financial house in order.

Background/Analysis

The precipitating cause of Zaire's present financial difficulties is a huge run-up in Zaire's short-term commercial indebtedness at the end of 1974, largely to French and Belgian banks. We estimate that Zaire's short-term indebtedness now stands at about \$550 million. Zaire's current foreign earnings, reduced by the sharp decline in copper prices over the past year, are not sufficient to service Zaire's debt and to pay for essential goods and services imports.

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-2-

US and foreign banks are now unwilling to extend further credits without government guarantees and even want to reduce their exposure. Arrears have built up, and gaps have developed in the import pipeline threatening consumer shortages and industrial shutdowns. Longer-term financing for industrial development is also jeopardized, including that for a \$700 million copper project in which an American company is joint principal shareholder. With no prospects for improved copper prices before at least the end of this year, the crisis can be expected to worsen in the absence of additional external financial assistance.

The IMF could provide up to \$105 million in immediate balance of payments support, contingent upon Zaire's acceptance of restraints on budgetary and foreign expenditures. IMF resources to Zaire would be disbursed in \$35 million tranches, each tied to increasingly stringent commitments. Mobutu probably would not accept the financial restraints the Fund would require for Zaire to tap more than a \$70 million drawing, but IMF involvement is the key to the establishment of the confidence of the international financial community. Mobutu has opposed recourse to the IMF as unnecessary and a menace to Zaire's national dignity.

Mobutu believes his problem is a short-term one merely requiring additional resources, particularly from traditional friends like the United States, to carry him until copper prices revive. He has been successful in gaining some support from the Arabs (\$90 million) and the French (\$20 million). We, the IMF, and his other creditors believe greater restraint in budgetary expenditures and better allocation of available foreign exchange are essential to restore Zaire's economic health.

At the same time we recognize that the US in its own interest cannot be completely negative toward Mobutu's expectation of assistance from us. Apart from Zaire's political importance to us, we have significant economic interests, including access to Zaire's abundant mineral and energy resources and an existing financial

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~~CONFIDENTIAL~~

-3-

stake of about three quarters of a billion dollars in direct investment, loans and contracts. A possible aid package has been developed with this in mind.

Proposed US Assistance Package

We envisage an assistance package of about \$40-50 million, consisting of the following elements:

- Possible EXIM line of credit of \$20 million.
- CCC agricultural commodity credits.
- PL-480 Title I commodity assistance.
- An AID program loan.

Implementation of all of these program elements could begin almost immediately.

Any AID involvement in this assistance package will require Congressional consultations and approval and is subject to a number of considerations. Without Congressional approval the US assistance package would be substantially diminished, perhaps by as much as one-half. These considerations are incorporated in the attached (Tab 1) action memorandum from John Murphy, which requires your decisions as indicated. Mr. Murphy recommends, inter alia, that AID not participate in the assistance package.

AF and EB believe AID's participation is essential to achieve a package of the recommended magnitude.

Eximbank President Casey's views are at Tab 2.

Congress is in a somewhat anti-Zaire mood as a result of Mobutu's nationalization of some foreign assets (mainly non-American), his conflict with the Catholic Church, and his allegations of a US plot against him.

Issues

Assuming you agree to the concept of US aid outlined above, we have two options:

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-4-

Option 1

Make our aid conditional on Zaire's acceptance of an IMF stabilization program.

Pro:

(1) Any credible stabilization effort will require IMF involvement. IMF participation is probably an essential precondition to needed and highly desirable burden sharing by the private banking community and the Germans and Belgians.

(2) Other agencies (AID, Treasury, Eximbank) are predisposed to assist in a meaningful stabilization program. Eximbank is presently prepared to participate only in conjunction with an IMF stabilization program.

(3) This would be the best way of improving Zaire's financial management.

Con:

Mobutu may continue to reject an IMF stabilization program. If he did, he could react unfavorably to our "pressures" and our bilateral relations would be worsened.

Option 2

Strongly urge Mobutu to agree to an IMF stabilization program, but be prepared to make aid available if he refuses.

Pro:

(1) If, despite Vance's every effort, Mobutu continues adamantly to reject an IMF program, we would not be obliged ultimately to refuse his request for our assistance. Such a refusal would have grave political consequences.

(2) It would permit continued favored treatment for US interests.

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-5-

(3) It would emulate the Arab and French precedent (the French have agreed to defer for one year \$20 million in short term credits subject to Zaire's making current payments for Mirages).

Con:

(1) It would probably not resolve Zaire's financial problem. In the absence of an IMF-sponsored stabilization program, US and foreign private creditors would continue to seek to reduce their exposure. This would cause an arrears build-up and continued pressure on Zaire's balance of payments. New financing for development, like the US copper project, would also be jeopardized.

(2) There would be no clear rationale for seeking other creditor participation.

Bureau Views

EB and AID favor Option 1, AF favors Option 2.

Recommendation

That you approve our strongly urging Mobutu to accept an IMF stabilization program but agree to make aid available if he refuses (Option 2, favored by AF).

Approve JK JUL 5 1975 Disapprove _____

ALTERNATIVELY, that we make our aid offer conditional on Zaire's acceptance of an IMF stabilization program (Option 1, favored by AID and EB).

Approve _____ Disapprove _____

Additional Decisions Required

If you approve either Option 1 or 2, we need the following:

1. Authorization from you to consult with Congress on a Zaire package before Vance returns to Kinshasa.

Approve JK JUL 5 1975 Disapprove _____

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-6-

2. Cooperation from Treasury which would be best assured by a call from you to Simon.

JUL 5 1975

Will call

Will not call

Have someone else call

Name

3. Participation of EXIM in an assistance package if Mobutu does not agree to an IMF standby arrangement would require intervention at the highest level of the Department.

JUL 5 1975

Will call

(Ingersoll will call Casey)

Will not call

Have someone else call

Name

Proposed Implementation of Your Decisions

Ambassador Vance will do his utmost to persuade Mobutu to agree to an IMF program. Assuming Treasury's concurrence and Congressional reaction is favorable--or at least not hostile--Vance will also transmit to Mobutu our willingness to help restore Zaire's financial position, contingent upon an IMF program or not depending upon your decision. Without going into the details, and mentioning only an order of magnitude figure, he would tell Mobutu that our aid would comprise several components--CCC credits, PL-480, AID special assistance,

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-7-

and possibly Eximbank participation--and that we would shortly convey to his government its precise composition.

Approve _____ Disapprove _____

Attachments:

- Tab 1 - Memo from Mr. Murphy.
- Tab 2 - President Casey's views.

Drafted: AF/EPs:RBDuncan

7-3-75

Concurrence: Amb. Vance; EB-PBoeker; AID-Mr. Murphy;
E:CRobinson (Info)

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